

25 January 2024

Director
Payments Strategy and Policy Unit
Financial Systems Division
The Treasury

By email: paymentsconsultation@treasury.gov.au

Dear sir/madam,

Winding down Australia's cheques system

The Insurance Council of Australia (**Insurance Council**) welcomes the opportunity to comment on Treasury's consultation paper *Winding down Australia's cheques system* (the **Paper**). Phasing out of cheques has been actively discussed by the Insurance Council and our members with the Australian Securities and Investments Commission (**ASIC**). The transition will present difficulties in processing claims management and policy cancellation payments as well as early payment to customers in urgent financial need. However, the challenges will be acute for remediation payments as it is less likely that an insurer will have up-to-date contact details of these impacted customers relative to those who have initiated a claim or cancellation with their insurer. General insurers acknowledge that any solution needs to be supported by customer awareness/education program(s) to ensure an orderly transition.

Principles and conditions to enable a smooth transition

We are supportive of the conditions outlined in the Paper, noting that our members are already in the process of implementing long-term solutions to replace cheques for retail customers, supported by education programs and increased customer-insurer touch points in the product life cycle. A 'sufficient grace period for consumers and businesses to make necessary adjustments to transition to alternate payment methods' may be challenging for general insurers to accommodate due to recent announcements by banks regarding changes to cheque services from 2024, which was acknowledged in the Paper.¹ This has required our members to aim for implementation by 2024 rather than 2026 as cheque access and services provided by banks may vary during the transition. Customers will need to be properly informed by their banks to understand whether cheques will still be accepted as that information will inform customers' preferred method of receiving payments or decision to open additional accounts to continue to accept cheque payments.

Barriers to smooth transition

The sequencing and timing of the transition outlined in the Paper appears appropriate, but the expected completion of the transition will vary across insurers, subject to the impact of the barriers discussed below.

Customers are increasingly hesitant to provide up-to-date bank account or credit card details to facilitate remediation due to scam, cyber and fraud concerns as provision of such information usually involves the customer clicking on a link provided via email or providing details over an incoming phone call. Research conducted by some members suggests that customer behaviour is not expected to

¹ [Changes to cheques](#) (2023), Commonwealth Bank website; [Changes to cash and cheque services](#) (2023), Macquarie Bank website; [Winding down Australia's cheques system](#) (2023), The Treasury website

drastically change following the implementation of a new digital solution. Most customers will require time to familiarise themselves with the new solution. Further, vulnerable groups were found to be more reliant on cheques, more vigilant and least likely to register details through an online portal. Insurers are mindful that such customers affected by lower digital ability, language barriers, access to electronic devices and reliable internet connection and/or other circumstances may be difficult to identify and support if they do not respond to insurers' multiple attempts to engage over the phone or via email.

Notwithstanding members' efforts to support customers through this transition, the cessation of cheques will likely result in an increase in enquiries and Insurance Unclaimed Monies being forwarded to ASIC and other relevant bodies, subject to the state/territory the intended recipient resides in, and the head office location of the insurer. The expected increase of 'unclaimed monies' funds and customer inquiries will further strain resourcing across the relevant Commonwealth and State government bodies and industry so we encourage close collaboration to ensure a smooth transition.

We also highlight that customers impacted by significant weather events tend to be in more rural areas of Australia, may have limited access to online banking, and rely more on cheques to receive claims settlement payments from insurers. We are conscious that these customers are going to be further impacted by the increasing number of regional bank branches closing in the future.² Further, general insurers are not able to rely on payID as a proxy mechanism for payment or bank account details registered with Medicare like health insurers to enable customers to claim benefits.³ As such, we encourage appropriate coordination across government and general insurers to ensure the cheque phase out will not further disadvantage customers in regional areas or experiencing vulnerability.

Varying practices by distribution channels adopted by insurers also have a flow-on impact on ease and method of transition. For example, customers that purchase insurance through an intermediary may be managed differently between insurers and brokers alike, as discussed below.

Some of our members also share the concern highlighted in the Paper, regarding overseas customers and foreign transfers. Insurers may experience difficulties in processing payments for customers who have permanently relocated, given some countries also restrict international transfers unless conducted between accounts held by the customer in each respective country. We note this is only expected to affect a limited number of customers.

Other institutional or government usage of cheques

Some government agencies or departments continue to rely on the receipt of cheques at the time of application to initiate a request. For example, subpoenas and Freedom of Information requests require cheques to be issued upon submission of the request(s) to obtain information necessary for a claims assessment. The cessation of cheques as soon as 2024 by some banks suggests that insurers may not be able to process such requests to facilitate claims handling even if governments provide a grace period. Similarly, some entities such as hospitals prefer receiving payments in the form of cheques for workers compensation claims. Insurers are mindful that delays to claims handling can cause detriment to consumers and impact insurers' ability to satisfy ASIC's expectations set out in Information Sheet 253.⁴ We therefore urge governments across the country to review government use of cheques and coordinate a response to facilitate an orderly transition.

Insurers with intermediary clients typically rely on cheque issuance for remediation and refund payments. This is because insurers often hold limited intermediary client details i.e. only as much as

² [Hundreds more regional bank branches 'at risk' of closing as banks attempt to balance in-person and digital demand](#) (2023), ABC News

³ [Online options for health professionals](#) (2023), Services Australia website

⁴ [Claims handling and settling: How to comply with your AFS licence obligations](#) (2021), ASIC website

required for insurers to underwrite and may not have up-to-date contact or payment details. A high level of involvement is required from both the broker and the insurer to successfully issue a payment. For example, a cheque may be issued to the broker to forward on to the client or the broker may be asked to provide the latest customer contact address, though it may not be the current address. In these circumstances, seeking customers' bank details presents additional challenges such as privacy, accuracy and cybersecurity concerns given payment instructions are received from a third party. Where insurers are not authorised to contact a customer directly, this could also impact an insurers' ability to demonstrate that 'reasonable endeavours' outlined in Regulatory Guide 277 were made to contact and remediate a customer.⁵

Roles of government and industry

Our members welcome the opportunity to collaborate with government to address challenges relating to unclaimed monies, existing government usage of cheques and explore transitional arrangements. We also propose an industry-government partnership to uplift awareness and education.

Insurers are mindful that settlement options available for some claims will be limited to gift cards or electronic settlements following the discontinuation of cheques. However, an insurer's ability to settle with gift cards is also restricted due to anti-money laundering regulations. We suggest that customers may benefit from a less restrictive choice of non-electronic settlement if additional flexibility can be provided to insurers during this transition period.

The Insurance Council is working closely with the National Insurance Brokers Association of Australia to explore an industry-led long-term solution for broker clients that will duly consider secure storage, access and maintenance of up-to-date customer contact and payment details to facilitate payments.

More generally, insurers are cognisant of the need to:

- Invest in consumer education and awareness;
- Implement a digital solution to enable collection of bank account details from customers to process payments;
- Update current systems and processes that default to cheque payments to support the transition, particularly for vulnerable customers; and
- Educate employees, distributors, agents and other representatives regarding new payment processes.

We look forward to ongoing engagement with Treasury as consultation and transition progresses. Please contact Veronica Wong, Policy Advisor, Regulatory & Consumer Policy, at [REDACTED] if you have any queries regarding this submission.

Kind regards,



Andrew Hall
Executive Director and CEO

⁵ [Regulatory Guide RG 277 Consumer remediation](#) (2022), ASIC website